

PEAT, MARWICK, MITCHELL & CO.

CHARTERED ACCOUNTANTS

447 COLLINS STREET, MELBOURNE 3000

CABLES AND TELEGRAMS: "VERITATEM"

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OUR REFERENCE 337P60

19th May, 1971

The Directors,
F. & T. Industries Limited,
8 Nicholson Street,
MELBOURNE. 3002

Dear Sirs,

1. We have examined the accounts of F. & T. Industries Limited formerly known as F. & T. Industries (Australia) Limited and Felt and Textiles of Australia Limited (referred to in this report as "the Company") and the consolidated accounts of that company and its subsidiaries (referred to in this report as "the Group") for the five years ended 30th June, 1970, and the six months ended 31st December, 1970.

2. The accounts for the period covered by our examination were audited by us with the exception of the New Zealand subsidiary, and one other subsidiary for the years 1966 to 1968, which were audited by other auditors.

3. Profits of the Company and the consolidated profits of the Group for the five years ended 30th June, 1970, and the six months ended 31st December, 1970, after adjustments as outlined in paragraph 4, are set out hereunder -

A. Parent Company - F. & T. Industries Limited

	Six Months Ended 31st Dec., 1970	Years ended 30th June				
		1970	1969	1968	1967	1966
	\$	\$	\$	\$	\$	\$
Adjusted profit before income tax	1,892,710	3,619,745	1,412,778	1,607,619	947,420	1,124,681
Income tax thereon - see para.5	826,326	1,427,907	108,949	189,276	103,203	93,691
Adjusted net profit for the period	<u>1,066,384</u>	<u>2,191,838</u>	<u>1,303,829</u>	<u>1,418,343</u>	<u>844,217</u>	<u>1,030,990</u>

B. Consolidated - F. & T. Industries Limited and subsidiaries.

	Six Months Ended 31st Dec., 1970	Years ended 30th June				
		1970	1969	1968	1967	1966
	\$	\$	\$	\$	\$	\$
Adjusted profit before income tax Carried forward	4,333,583	6,016,045	2,693,862	2,523,275	1,769,684	1,672,958

	Six Months Ended 31st Dec., 1970	<u>Years ended 30th June.</u>				
	1970	1969	1968	1967	1966	
	\$	\$	\$	\$	\$	
Brought forward	4,333,583	6,016,045	2,693,862	2,523,275	1,769,684	1,672,958
Income tax thereon - see para.5	1,896,082	2,775,169	1,003,861	845,008	584,600	584,584
Adjusted net profit for the period	2,437,501	3,240,876	1,690,001	1,678,267	1,185,084	1,088,374
Less portion attributable to minority shareholders in subsidiaries	262,985	399,726	239,975	160,561	136,617	191,560
Adjusted net profit attributable to the Group	2,174,516	2,841,150	1,450,026	1,517,706	1,048,467	896,814

4. The following adjustments were made by us to the published profits -

A. F. & T. Industries Limited

- (i) During the year ended 30th June, 1970, the Company disposed of its 51% holding in the ordinary issued capital of Feltex New Zealand Limited formerly F. & T. New Zealand Limited. A major part of the proceeds from the sale of these shares was returned to the shareholders of F. & T. Industries Limited by way of a reduction of capital during June, 1970. Accordingly, dividends from that Company and New Zealand income tax thereon have been eliminated as follows -

	<u>Years ended 30th June</u>				
	1970	1969	1968	1967	1966
	\$	\$	\$	\$	\$
Dividends	150,699	311,446	239,638	289,940	231,952
N.Z. income tax thereon	22,605	28,001	19,724	28,419	20,218

- (ii) Payroll tax rebates amounting to \$360,891, less income tax thereon \$153,378 included in profits for the year ended 30th June, 1967, but relating to the year ended 30th June, 1965, and prior, have been eliminated.
- (iii) Adjustments to prior years' results charged in the accounts against unappropriated profits -

	<u>Years ended 30th June</u>				
	<u>1970</u>	<u>1969</u>	<u>1968</u>	<u>1967</u>	<u>1966</u>
	\$	\$		\$	
Provision for -					
Retirement of senior executives	-	150,000	-	-	-
Amount written back in 1970	-	(70,000)	-	-	-
Long service leave	-	-	-	93,768	-
F. & T. Superannuation fund	47,000	-	-	50,000	-
Less income tax thereon	(22,325)	-	-	-	-

B. Consolidated - F. & T. Industries Limited and Subsidiaries.

- (i) Elimination of profits attributable to F. & T. New Zealand Limited for the reasons referred to in paragraph 4 A (i).

	<u>Years ended 30th June</u>				
	<u>1970</u>	<u>1969</u>	<u>1968</u>	<u>1967</u>	<u>1966</u>
	\$	\$	\$	\$	\$
Profit before income tax	150,699	2,507,896	2,068,550	2,545,265	2,531,415
Income tax thereon	22,605	968,079	775,029	1,241,336	1,165,055
Net profit	128,094	1,539,817	1,293,521	1,303,929	1,366,360
Less portion attributable to minority shareholders	-	869,172	716,491	740,633	686,675
Group net profit	128,094	670,645	577,030	563,296	679,685

- (ii) The adjustment for the payroll tax rebates relating to prior years referred to in paragraph 4 A(ii).

- (iii) Adjustments to prior years' results charged in the Group accounts against unappropriated profits -

	<u>Years ended 30th June</u>				
	<u>1970</u>	<u>1969</u>	<u>1968</u>	<u>1967</u>	<u>1966</u>
	\$	\$	\$	\$	\$
Provision for -					
Retirement of senior executives	-	170,000	-	-	-
Amount written back in 1970	-	(90,000)	-	-	-
Long service leave	-	-	-	153,974	-
F. & T. Superannuation fund	70,334	-	-	50,000	-
Less income tax thereon	(33,409)	-	-	-	-

- (iv) Additional income tax of \$88,040 provided for the year ended 30th June, 1968, in respect of non-recurring deductions arising from tax losses incurred prior to the year ended 30th June, 1966.

5. Income tax has been provided for on the basis of public company rates current in the year of income, i.e.

	<u>1970</u>	<u>1969 and 1968</u> <u>years</u>	<u>1967 and 1966</u> <u>years</u>
First \$10,000 of taxable income	42½%	40%	37½%
Balance of taxable income	47½%	45%	42½%

6. The assets and liabilities of the Company and the Group as at 31st December, 1970, based on the audited balance sheets at that date are set out hereunder -

	<u>F. & T. Industries Limited</u>		<u>F. & T. Industries Limited and Subsidiary Companies</u>	
	\$	\$	\$	\$
<u>Fixed Assets -</u>				
Land and buildings				
at cost	3,761,497		7,519,367	
at valuation (Note 1)	<u>4,018,830</u>		<u>8,263,193</u>	
	7,780,327		15,782,560	
Less depreciation provision	<u>446,192</u>	7,334,135	<u>604,517</u>	15,178,043
Plant machinery and other equipment -				
at cost	5,695,571		19,273,976	
at valuation (Note 1)	<u>-</u>		<u>557,686</u>	
	5,695,571		19,831,662	
Less depreciation provision	<u>2,894,413</u>	2,801,158	<u>9,201,709</u>	10,629,953
		10,135,293		25,807,996
<u>Investments -</u>				
Quoted on stock exchange -				
at cost				
(Market value \$130)	133		133	
at Market valuation	143,357		143,357	
Unquoted - Note 2	<u>2,441,825</u>	2,585,315	<u>2,497,712</u>	2,641,202
<u>Subsidiary Companies -</u>				
Shares in subsidiary companies - at cost, or valuation (Note 3)	15,825,940			
Amounts due by subsidiaries (long term)	<u>3,400,000</u>	19,225,940		
Carried forward		31,946,548		28,449,198

	\$	\$	\$	\$
Brought forward	31,946,548			28,449,198

Current Assets -

Stocks on hand - at lowest of cost, net realisable value and replacement price	5,017,697		13,408,651
Trade debtors and bills receivable (less provision for doubtful debts and discounts: Company \$443,378 Consolidated \$634,004)	3,846,809		11,551,005
Amounts due by subsidiary companies	2,534,563		-
Other debtors and pre-payments	779,859		1,557,130
Cash on hand and short term deposits	<u>3,511,025</u>		<u>3,551,371</u>
	<u>15,689,953</u>		<u>30,068,157</u>
	47,636,501		58,517,355

Deduct:

Current Liabilities -

Bank overdrafts and short term loans (net)	509,766		2,245,906
Trade creditors	2,148,800		6,171,147
Amounts due to subsidiary companies	1,497,014		-
Other creditors and accruals	507,260		1,023,626
Provision for -			
Interim dividend	1,059,995		1,059,995
income tax	1,821,935		5,127,343
long service leave	<u>314,976</u>		<u>542,090</u>
	<u>7,859,746</u>		<u>16,170,107</u>
	<u>39,776,755</u>		<u>42,347,248</u>

Deduct:

Long Term Liabilities -
(Note 4)

7% debentures	10,000,000		10,000,000
Loans on mortgages	-		1,591,492
Unsecured loans	-		119,788
	<u>10,000,000</u>		<u>11,711,280</u>
	<u>29,776,755</u>		<u>30,635,968</u>

Deduct:

Interest of outside shareholders in assets and liabilities of subsidiary companies	-		<u>2,871,550</u>
	<u>29,776,755</u>		<u>27,764,418</u>

Representing -

	\$	\$	\$	\$
Share capital issued and fully paid				
33,919,847 ordinary shares of 25¢ each fully paid.		8,479,962		8,479,962
Capital reserves -				
Premiums on issue of shares	8,192,082		8,192,082	
Other capital reserves	8,831,310		6,744,473	
Difference between the value at which inter-company holdings of shares are entered as assets in the balance sheets and their par value	-		(4,655,519)	
		17,023,392		10,281,036
Unappropriated profits		<u>4,273,401</u>		<u>9,003,420</u>
		<u>29,776,755</u>		<u>27,764,418</u>

Parent company
\$

Consolidated
\$

Note 1. Land and buildings -
basis of valuation

Independent valuation - 1957	3,428,830	3,634,326
1960	-	61,526
1962	-	140,000
1967	-	1,578,000
1968	-	117,059
1969	-	310,000
1970	-	680,565
1971	590,000	590,000
Directors' valuation - 1965	-	472,599
1968	-	304,118
1970	-	375,000
	<u>4,018,830</u>	<u>8,263,193</u>

Plant, machinery and other equipment -
basis of valuation

Directors' valuation - 1966	-	<u>557,686</u>
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Note 2. Investments -

Unquoted		
at cost	2,215,625	2,271,517
at directors' valuation	<u>226,200</u>	<u>226,200</u>
	<u>2,441,825</u>	<u>2,497,712</u>

Note 3.	<u>Shares in subsidiary companies -</u>	<u>Parent Company</u>
		\$
	at cost	15,097,868
	at directors' valuation -	
	1965	2
	at directors' valuation -	
	1968	<u>728,070</u>
		<u>15,825,940</u>

Note 4. Long term liabilities -

(1) Debentures -

\$10,000,000 7% Debenture stock issued by parent company in terms of Trust Deed dated 23rd December, 1964, which provided for security by way of:

- (i) First mortgages over certain freehold properties of the parent company and subsidiaries.
- (ii) Floating charge over the remaining assets of parent company.
- (iii) Guarantee by certain subsidiaries supported by a floating charge over their assets.

Debenture stock is redeemable as follows:-

30th November, 1974	\$2,459,800
30th November, 1979	2,798,400
30th November, 1984	3,216,400
30th November, 1989	<u>1,525,400</u>
	<u>\$10,000,000</u>

(2) Loans on mortgages (consolidated accounts)

Repayable within one year	\$ 114,000
Repayable after one year	<u>1,477,492</u>
	<u>\$1,591,492</u>

(3) Unsecured loans (consolidated accounts)

Repayable within one year	\$ 110,000
Repayable after one year	<u>9,788</u>
	<u>\$ 119,788</u>

Note 5. Contingent Liabilities and Capital Commitments -

	<u>Parent Company</u>	<u>Consolidated</u>
	\$	\$
Contingent Liabilities		
Secured	Nil	Nil
Unsecured	164,854	292,855

Note -

In addition to the above, there are contingent liabilities in the parent company for guarantees given in respect of subsidiary companies as follows:-

Secured	Nil
Unsecured	245,000

	<u>Parent Company</u>	<u>Consolidated</u>
	\$	\$
Board approvals for Capital Expenditure Outstanding (including Commitments)	245,249	1,894,438

Note 6. Share Options -

158,500 share options were granted to certain employees and executive directors of the Company for a consideration of one cent which entitled the holder of each option to subscribe for one ordinary share of 25 cents on the payment of 82 cents. The options are exercisable on 27th November, 1972, and 27th November, 1973, at the discretion of the holders.

7. Issued Capital and Dividends Paid -

A summary of the issued and paid up capital of F. & T. Industries Limited at the end of each of the five years ended 30th June, 1970, and six months ended 31st December, 1970, together with the amount and rate of dividend paid in respect of each of these periods are set out hereunder.

A resolution for a reduction in capital was passed at an extraordinary general meeting of the Company held on 6th March, 1970, and following approval by the Court, a return of capital of 25 cents per stock unit made to stockholders on 19th June, 1970, thereby reducing the issued capital by \$6,920,148.

Ordinary stock units were issued as part consideration for the purchase by F. & T. Industries Limited of the issued capital in the following companies -

Year ended 30th June, 1970 -

372,208 ordinary stock units 25 cents - H.J. Penno & Co. Pty. Limited.

Six months ended 31st December, 1970 -

4,467,046 ordinary stock units 25 cents - Elmaco Industries Limited.

1,400,000 ordinary stock units 25 cents - Shelton Industries Limited.

At the annual general meeting held on 27th November, 1970, ordinary stock units of 25 cents were reconverted into fully paid ordinary shares.

	6 months ended <u>31/12/70</u>	<u>1970</u>	<u>Years ended 30th June</u>			
	\$	\$	<u>1969</u>	<u>1968</u>	<u>1967</u>	<u>1966</u>
	\$	\$	\$	\$	\$	\$
Ordinary stock units of 50¢ each	-	-	13,840,296	13,840,296	13,840,296	13,840,296
Ordinary shares (stock units) of 25¢ each	8,479,962	7,013,200	-	-	-	-
Dividends paid -						
Amount	1,059,995	1,730,080	1,557,037	1,384,034	1,384,034	1,384,032
Rate per annum	12½%	25%	11¼%	10%	10%	10%
	(half year)					

8. Audited accounts have not been made up for F. & T. Industries Limited and any of its subsidiary companies since 31st December, 1970.

This report has been prepared for inclusion in the Statement required under section 184 of the Companies Act 1961, as amended of New South Wales, in connection with the proposed take-over offer to be made by F. & T. Industries Limited for the whole of the issued capital of Stegbar Limited.

Yours faithfully,

Peat Marwick Mitchell & Co.

Peat, Marwick, Mitchell & Co.

Chartered Accountants